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ARTICLES:

(1) Economic Minister at US Embassy sees Japan-US FTA as premature, cites agricultural protection policies as impediment

NIKKAN KOGYO SHIMBUN (Page 2) (Full)
May 31, 2006

James Zumwalt, economic minister at the US Embassy in Japan, gave a speech in Tokyo on May 30, prior to his leaving post in July. In it, he expressed the view that "it would seem too early" to think about the possibility of a free-trade agreement (FTA) between Japan and the United States. Regarding the East Asia economic zone initiative, he gave this advice: "If an organization is to be created that is in line with World Trade Organization (WTO) rules and is open and does not exclude other countries, the US would not oppose it."

The economic minister is slated to assume the position of Japan Desk director at the State Department in August. In his speech, he predicted that if concessions are made to reach agreement on a US-South Korea FTA, now being negotiated, "It may possibly stimulate Japan (to move toward an FTA, too)." But he pointed to the negative stance of the Japanese government, which is shackled by agricultural protection policies. He said the US was not insisting on an FTA, for "there are many areas in which the US and Japan cooperate (outside of an FTA). It would be better to move forward from what we can do now." He appealed for a strengthening of the relationship in a layered fashion.

In addition, he cited as examples of US companies that had successfully invested in Japan such companies as Pfizer, P&G, and AIG. He mentioned that among those companies, AIG in particular

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had created approximately 2,000 new jobs at its facility in Nagasaki. He proudly pointed out, "American firms have contributed to the regional economies in Japan, as well,"

He added: "The reason that companies are concentrated in Tokyo is because the power to make decisions is centered there. As decentralization of authority to the regions progresses, we can expect to see the effects (there) of foreign direct investment (FDI) and policies to invite in companies." He expressed his high hopes for regional decentralization reform, if only to reach the Koizumi Cabinet's target of doubling FDI.

(2) Iran appeals to Japan to start work on Azadegan oil-field project, citing that removal of land mines is 96% complete

NIHON KEIZAI (Page 3) (Full)
Evening, May 31, 2006

By Kazushige Sagaya in Teheran

At a meeting of oil companies held in Teheran on May 30 to discuss the plan to develop the Azadegan oil field in southern Iran, Mehdi Bazargan, managing director of the Petroleum Engineering and Development Co., an affiliate of National Iranian Oil Co. that is in charge of negotiating with foreign companies, appealed to INPEX, Japan's major oil-development enterprise, to start development "by September 22, the time limit under the contract." The report was carried by the Iran's government-run news service.

Bazargan stated that several foreign companies had sounded him out with their own development plans, so if INPEX should pull out, he expected that "we could sign a contract with one of these companies." INPEX has insisted that the reason for the delay is because Iran had not removed the land mines in the oil field, as promised. But Managing Director Bazargan refuted that claim, stating, "Removal of land mines is 96% complete, there is no problem with work in the field."

On the other hand, a spokesperson for Iran's Foreign Ministry at a press conference on May 30 pointed out, "There is plenty of time until the September deadline; this is not the time to make speculations."

(3) Japan's FDI exceeds 5 trillion yen in FY2005, with more earnings set aside for reinvestment

NIHON KEIZAI (Page 1) (Full)
May 31, 2006

Direct investment abroad by Japanese companies in fiscal 2005 increased 32% over a year ago to 5.8 trillion yen, exceeding 5 trillion yen for the first time in 15 years. The amount of earnings put aside by Japanese affiliates abroad for reinvestment doubled to 1.6 trillion yen, greatly expanding foreign direct investment (FDI) from Japan. This result underscores that Japanese companies' globalization has entered a new phase where affiliates abroad use their profits for reinvestment, without relying on the parent companies in Japan.

Japan's FDI began to surge briskly in the late 1980s and reached a record 7.35 trillion yen in fiscal 1989 because of the appreciation of the yen and responses to increased trade disputes with the US and European countries. With the bursting of the

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asset-price bubble around 1990, however, Japan's annual outflows declined sharply to 1.6 trillion yen in fiscal 1993.

The surge in FDI is attributed to sharply increasing earnings reserved by Japanese affiliates abroad for reinvestment. The amount of such reserves climbed to 1.6 trillion yen - about 30% of Japan's total FDI, reaching its highest level ever, outstripping the 1.7 trillion yen record set in fiscal 2001. The increased portion of retained earnings is included in the amount of FDI.

Meanwhile, FDI outflows from Japan for such purposes as takeover bids or establishing new firms increased 17% over a year ago to 2.99 trillion yen.

The expansion of retained earnings overseas reflects the success of Japanese affiliates overseas. In Japan, given that the declining population might shrink domestic earnings, Japanese corporations will inevitably be pressed to earn more in foreign markets than now. It is likely that the localization of Japanese-owned companies overseas will accelerate even more.

(4) China calls on METI to remove 14 firms from list of firms that may use products, technologies for developing nuclear weapons

SANKEI (Page 1) (Full)
May 30, 2006

China has demanded that the Japanese government remove 14 Chinese firms from its End User List, a list of foreign firms placed under export restrictions on the basis of the prospect that they might use imported products or technologies to develop nuclear weapons, according to informed sources yesterday. The Ministry of Economy, Trade and Industry (METI) has compiled the list based on information exchanged with the US and European countries, so it is impossible for Japan to independently redefine such companies as "free from any concerns." In part also because China's demand will affect the basis of Japan's national security policy, METI has no intention to respond to the request.

According to METI, Chinese Commercial Minister Bo Xilai made the above request when he met with METI Minister Toshihiro Nikai in Beijing this February. In another meeting with Nikai in the Kyoto Guest House on May 27, Bo repeated the request. In the second meeting, though, both agreed to have their responsible officials continue to exchange views.

METI introduced in 2002 the End User List, together with catch-all restrictions as a new system for trade management. The export-control system that had been adopted until then, such as the Coordinating Committee on Multilateral Export Controls (COCOM), was designed to restrict the export of items that might be

diverted for military use, but under the catch-all restriction system, suspicious firms are listed, and if a company plans to export products to a listed firm, the company is required to submit the plan to METI for screening.

In the past, Israel and other countries asked Japanese authorities to remove their domestic firms from the black list. According to an expert on trade management, however, "This is the first case of a request brought into a ministerial meeting as a formal agenda item," adding: "Should nuclear-related technology

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be transferred to China, the technology might flow into Pakistan or North Korea."

Japan's list reflects information based on the lists of the State Department and the Commerce Department. Japan's list and those worked out by such industrialized democratic countries as Britain, Canada and Germany have contributed to preventing the proliferation of nuclear weapons.

A senior METI official said: "We will not engage in negotiations with China" in response to its repeated requests, but based on the judgment that cooperative relations with China is indispensable for trade management, the ministry has agreed to continue talks.

METI filed a criminal charge against Yamaha Motor Co. this January for illegally exporting to China and other countries unmanned helicopters that could be turned into mass-destruction weapons.

(5) Nago City does not intend to participate in consultative body on Futenma relocation unless prefecture agrees; Refusal could delay implementation of Cabinet decision on USFJ realignment

OKINAWA TIMES (Page 1) (Excerpts)
May 31, 2006

Nago City

The prefectural government has taken a stance of not participating in the consultative body between the central government and local governments to discuss such matters as the construction plan for the alternate facility to the US Marines' Futenma Air Station. In that connection, a senior Nago official revealed that his city, too, would not participate, taking the view that "the precondition for Nago City joining the talks would be the prefecture's agreeing to join them." The central government, having made a cabinet decision, aims at quickly drafting a construction plan, but the possibility has emerged now of a major delay.

The senior official expressed the understanding that "the decision on the basic document of agreement in which the central government received the concurrence of the prefecture is still valid." He also said that there is also Nago City's decision in 1999 to accept the request from the prefecture and let Nago be the site for the relocation of the alternate facility.

The construction of an alternate facility is difficult to implement without the cooperation of the prefecture, such as procedures for an environmental assessment and reclamation of public waters. In the official's view, "Nago City and the central government cannot move ahead on this issue on their own."

Moreover, even the cabinet decision stated that in connection with the construction plan, "a consultative body would be established with the prefecture and local governments."

(6) Kakushin (heart of matter) column - point and counterpoint:
The cabinet approves US force realignment plan, but what will happen to Okinawa's burden?

TOKYO SHIMBUN (Page 3) (Almost full)

May 31, 2006

By Masakazu Kaji

At a cabinet meeting yesterday, the government approved a basic policy on the US force realignment plan. The basic policy includes the construction of two runways in a V-shape at Camp Schwab in Nago City, Okinawa Prefecture, to relocate the functions of the US forces' Futenma Air Station there, and the transfer of 8,000 Marines from Okinawa to Guam. All these steps are reportedly intended to alleviate the burden on Okinawa, home to 75% of US military facilities in Japan, but what are the local people's views of this development? We interviewed two lawmakers, one from the ruling camp and the other from the opposition.

Kozaburo Nishime of the Liberal Democratic Party (LDP): I give the government a score of 70 out of 100 for choosing the best available option

-- What is your evaluation of the new Futenma relocation plan?

"Frankly, the construction of two runways (as shown in the plan) astonished me, but this will help reduce noise pollution that may affect nearby communities. Relocating the base outside the prefecture would be the best choice, but given that there are no prefectures that would accept the relocation, this plan is a good choice."

-- Do you think the relocation will make progress under the government's plan?

"The construction work will be done within the US military facility that is fenced in, so opponents will find it difficult to obstruct the construction work. However, the construction work will not go as planned without full local understanding. Although Okinawa remains heavily burdened with US military facilities, I think the central government needs to explain in detail and even more carefully that the US military presence in Japan has contributed to peace in the country."

-- What is your view of the overall US force realignment plan?

"My impression is that this is not a groundbreaking agreement between the two countries. Both sides, having in mind the situation on the Korean Peninsula and China-Taiwan tensions, reached an accord on reducing the military burden (on Okinawa). As for this accord, I have a sort of favorable opinion of the central government and give it a score of 65 to 70 out of 100. The Futenma relocation and the transfer of Marines must be realized as quickly as possible. If burden reduction is realized in a visible manner, more local people will show their understanding toward the realignment plan."

-- What do you think are the issues that Japan will have to deal with in the months ahead?

"A matter of national concern is who will bear the costs relating to the realignment plan. It would be ideal if this did not cost any money, but we want to move forward to reduce the burden. We must be accountable to the nation."

-- Okinawa Gov. Keiichi Inamine has expressed discontent with the central government's adoption of the realignment plan.

"Supposedly, the governor is in distress, partly because he has been forced to scrap the plan he has until recently advanced. But it is not necessarily correct to say that economic assistance for the local economy will come to an end. Rather, it is possible to take the government decision this time to mean that the promotion measures have been secured."

-- Gov. Inamine says he will not run in the gubernatorial election in November.

"We on the part of the ruling camp think we are in a very severe situation. Taking over what the Inamine-led prefectural government has done so far is, I think, a way to bring stability to Okinawa. We'd like to ask his help to back a successor candidate. Doing so would be the shortest path to realization of the realignment plan."

Masahide Ota of the Social Democratic Party (SDP): Construction of alternative facility means the facility will be permanent

-- What is your evaluation of the central government's Futenma relocation plan?

"Building a new base within the same prefecture does not reduce the Okinawan people's burden. A new base, if constructed, will be permanent. The central government says two runways will be constructed to use one for landings and the other for takeoffs, but there is no guarantee that that rule will be observed by US forces. Seventy percent of the prefecture's residents are opposed to the central government's plan."

-- What do you think are problems in terms of the environment?

"The planned relocation site is within an area described as the most wonderful natural environment in Okinawa. However, an iron frame will be constructed on atolls there. If heavy oil spills out from the construction site into the sea, it will be impossible to stop the spread of oil contamination. Fishery operators who have until recently supported the relocation are now opposed to the central government's plan. It is impossible to put the base policy into practice without concurrence with affected local residents."

-- What do you think about the overall US force realignment plan?

"My impression is that America's interests come first before anything else. A new base, which is likely to be a permanent facility, will be constructed, and even after the Futenma base is relocated, the Futenma site will not be returned to Okinawa for at least the next eight years. Should an accident resulting in injury or death occur in the future, the public will erupt in rage to an extent the central government cannot control; if that happens, the Japan-US security arrangements will collapse. Even if all programs laid out this time under the US force realignment plan are implemented, 70% of the US military bases in Japan will remain in Okinawa."

-- What is your view of the central government's action?

"It has yet to come up with a clear answer to the question of what structure the US forces in Japan will have after they return some of their bases in Japan. There is a plan to construct a

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large military depot in Urasoe City. There is also a rumor that nuclear submarines will be allowed to make port calls. If that happens, (all the central government is doing) will only lead to strengthening the bases.

"It is also unclear how the realignment costs have been calculated. The Futenma relocation has been estimated to be at least 400 billion yen, but some in the Defense Agency estimate the cost at some 1 trillion yen. The central government has yet to make clear the details of the estimate."

-- Okinawa will have a gubernatorial election in November.

"Gov. Inamine complained about the central government's plan but allowed it. He did so perhaps because he had to accept requests from the construction industry, which backed him in the previous election. The US force realignment will be an issue in the election. Opposition parties would be able to form a more united front than ever."

(7) What underlies relations between Abe and Fukuda as rivals for LDP presidency (Part 5 - conclusion): Relying on Fukuda is Anti-Koizumi force's weakness

MAINIHCHI (Page 2) (Full)
May 30, 2006

On the morning of May 24, Makoto Koga, a former secretary general of the Liberal Democratic Party (LDP), called on Taku Yamasaki, a former LDP vice president, at the office of the LDP faction headed by Yamasaki. Koga proposed on May 18 that Class-A war criminals now enshrined at Yasukuni Shrine be separated from it. The two discussed Prime Minister Junichiro Koizumi's visits to the Shinto shrine. They also criticized the Koizumi government. Yamasaki lashed out at LDP Policy Research Council Chairman Hidenao Nakagawa, who has close ties with Koizumi, saying, "The present LDP Policy Research Council has automatically followed proposals by the government." Koga responded: "I have the same feeling."

The current assumption is that Chief Cabinet Secretary Shinzo Abe is the person whom Koizumi is thinking of as his successor. The strategy of the cross-factional group that is critical of the Koizumi government is to tighten the noose around Abe by developing an Asia diplomacy argument. As part of that effort, Koga, who heads the Japan Association for the Bereaved Families of the War Dead, seems to have proposed a study of removing Class-A war criminals from the list of those enshrined at Yasukuni Shrine.

Koichi Kato, a former LDP secretary general who has been critical of Koizumi, has formed a study group that mainly discusses views of history, particularly World War II. Those attending the first meeting included former Foreign Minister Masahiko Komura, Economy, Trade and Industry Minister Toshihiko Nikai, and former Education Minister Kunio Hatoyama. They exchanged views on what drove Japan and China to fight the Sino-Japanese War.

Kato and Yamasaki expect that former Chief Cabinet Secretary Yasuo Fukuda will run in the upcoming LDP presidential race. Fukuda has criticized Koizumi's visits to Yasukuni Shrine. If both Abe and Fukuda run for the LDP presidency, the Mori faction, the largest party faction, would split in two, forcing other

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factions to field their own candidates. If so, Abe would not be able to obtain a majority of votes in the first casting of votes, and he would be defeated in the runoff, according to a veteran lawmaker.

The parliamentary group to study building a national war memorial held a meeting on May 25, but Fukuda, a key group member, did not attend the session.

Anti-Koizumi lawmakers are skeptical about Fukuda's candidacy since he seems to be intentionally distancing himself from party members. They have found it difficult to field a candidate beside Fukuda even though they strongly suspect that Fukuda will not run in the end.

Factions with not presidential candidates are uneasy about the standoff between Abe and Fukuda growing more intense. On the evening of May 25, Defense Agency Director General Fukushima Nukaga, a member of the Tsushima faction, and faction members now serving in their first to fifth term in the Diet gathered together in a Tokyo restaurant. Koizumi has given the cold shoulder to the faction since he gained control of his government. As a result, the faction that was once the largest faction in the LDP slipped to the second largest one, replaced by the Mori faction. The faction has 74 members and the Mori faction has 86.

The meeting was intended to prevent the Tsushima faction from becoming a hunting ground for the presidential election. LDP Upper House Chairman Mikio Aoki, a Tsushima faction member, has

remained silent about the presidency. Aoki is regarded as a person who is trying to field a post-Koizumi contender under cooperation between the Mori and Tsushima factions.

If the Mori faction splits, major existing factions will step down from the center stage without fail. If the Mori faction can field a single candidate, it alone will stick out from other factions. If so, such a situation will continue even after the presidency.

(8) Energy Agency's "plan for building nuclear power-oriented nation" proposes augmenting funds for reprocessing nuclear fuel

TOKYO SHIMBUN (Page 3) (Full)
May 31, 2006

The Agency for National Resources and Energy in the Ministry of the Economy, Trade and Industry (METI) yesterday submitted an outline of its report titled "Plan to Build a Nuclear Energy-Oriented Nation" to the Nuclear Power Subcommittee under the Study Committee for National Resources and Energy. The report proposes that Japan continue to supply in 2030 and beyond 30% to 40% of domestic electric power with nuclear power. It also calls for increasing funds set aside for reprocessing nuclear fuel and constructing or expanding nuclear plants as part of efforts to promote the nuclear fuel cycle.

Recently, many countries have begun to focus again on nuclear power as an energy source as part of efforts to successfully cope with surging oil prices and the need to address global warming. In response to such a global trend, the agency will come up with a nuclear fuel-cycle policy, which has been put on the backburner in the wake of the Monju incident and the disastrous nuclear

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accident in Tokaimura. Before promoting the policy, though, there are a host of tasks to clear, such as the deadlock in the plutonium energy project, the delay in resuming operating the Monju fast-breeder reactor, the disposal of nuclear waste.

The outline of the report notes that the government will come up with an inconsistent policy from a medium to long-term perspective and present a major policy direction for electric power companies and manufacturers based on the policy. It also promises that the government will boost investment in constructing, expanding, or renovating nuclear plants and helping the domestic nuclear power industry to do business overseas.

The draft report also suggests that the government will instruct power companies to reserve funds for constructing the second reprocessing plant to dispose of nuclear waste that cannot be disposed of at the reprocessing plant of Japan Nuclear Fuel Limited in Aomori Prefecture. It also will allow such companies to reserve money for constructing nuclear plants in the future.

SCHIEFFER